Engcobo Local Municipality
Financial Statements
for the year ended 30 June 2014

General Information

Legal form of entity	The entity functions as a local municipality, established under Paragraph 151 of the Constitution of the Republic of South Africa
Nature of business and principal activities	Engcobo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998). The municipalities operations are governed by: - Municipal Finance Management Act (No 56 of 2003) - Municipal Structures Act (No 117 of 1998) - Municipal Systems Act (No 32 of 2000) and various other acts and regulations
The following is included in the scope of operation	The principal activities of the municipality are: - Provide democratic and accountable government - Ensure sustainable service delivery to communities - Provide social and economic development - Provide basic services to the community
Executive committee	
Mayor	L Jiyose
Councillors	N. Roskruge, Speaker S. Mbolo, Chief Whip S. Nkele, Finance Z. Xuba, Corporate Services Z. Jabanga, Infrastructure N. Gedeni, Special Programmes Unit N. Berana, Community Services M. Mbhenyana, IPED M. Tunce, Ward 1 T. Bizana, Ward 2 N. Noludwe, Ward 3 N. Macingwane, Ward 4 M. Hokwana, Ward 5 S. Mbutuma, Ward 6 M. Paliso, Ward 7 L. Sizani, Ward 8 S. Guma, Ward 9 P. Ntsibantu, Ward 10 N. Yalezo, Ward 11 S. Konile, Ward 12 M. Macozoma, Ward 13 B. Gqitiyeza, Ward 14 J. Poswa, Ward 15 N. Lumkwana, Ward 16 N. Bottoman, Ward 17 M. Saki, Ward 18 W. Mafufu, Ward 19 M. Singama, Ward 20 Y. Ponoshe S. Mabadi N. Mgudlwa S. Ndude

General Information

	N. Beta T. Daniel S. Marenene N Tolbadi N. Nyudwane Z. Madyolo N. Nzabela
Grading of local authority	Grade 3
Accounting Officer	S. Mahlasela
Chief Finance Officer (CFO)	M. Matomane
Registered office	54 Union Street Engcobo 5050
Postal address	PO Box 24 Engcobo 5050
Bankers	First National Bank and ABSA Bank
Auditors	Auditor General Registered Auditors
Preparer	The financial statements were independently compiled by: M. Matomane
Published	30 November 2014
Telephone number:	(047) 548 1221
Fax number:	(047) 548 1078
Email address:	matomanem@engcobolm.org.za

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Department of Local Government for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Department of Local Government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 6 to 81, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

Accounting Officer
Designation

Audit Report

To the Provincial Legislature of Engcobo Local Municipality

Report on the financial statements

Opinion

Auditor General
Registered Auditors
Partner's name
Additional description
Additional description

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2014.

1. Review of activities

Main business and operations

The municipality is engaged in service delivery and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Events after the reporting period

Chris Hani District Municipality is taking over water services and the related debtors and revenue commencing on 01 July 2014.

4. Secretary

The municipality had no secretary during the year.

5. Auditors

Auditor General will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2014	2013 (Restated)
Assets			
Current Assets			
Inventories	9	762,418	1,093,566
Receivables from exchange transactions	10	2,587,396	551,092
Receivables from non-exchange transactions	11	703,419	769,420
VAT receivable	12	4,522,360	101,286
Cash and cash equivalents	13	49,210,593	61,479,948
		57,786,186	**63,995,312**
Non-Current Assets			
Property, plant and equipment	4	292,974,656	287,171,227
Intangible assets	5	393,145	353,408
		293,367,801	**287,524,635**
Total Assets		**351,153,987**	**351,519,947**
Liabilities			
Current Liabilities			
Finance lease obligation	16	-	73,024
Payables from exchange transactions	19	16,287,278	10,940,889
Unspent conditional grants and receipts	17	5,931,766	30,521,323
Provisions	18	2,270,864	2,049,065
		24,489,908	**43,584,301**
Total Liabilities		**24,489,908**	**43,584,301**
Net Assets		**326,664,079**	**307,935,646**
Net Assets			
Reserves			
Revaluation reserve	14	3,424,462	3,424,462
Accumulated surplus		323,239,617	304,511,184
Total Net Assets		**326,664,079**	**307,935,646**

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 (Restated)
Revenue			
Revenue from exchange transactions			
Service charges	23	2,610,142	2,674,789
Rental of facilities and equipment	21	269,873	177,080
Licences and permits	21	3,938,247	2,465,368
Other income	25	2,342,797	432,776
Interest received - investment	31	2,881,416	2,267,282
Total revenue from exchange transactions		**12,042,475**	**8,017,295**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	2,772,606	2,866,382
Transfer revenue			
Government grants & subsidies	24	180,479,958	159,839,798
Fines	21	12,050	34,970
Total revenue from non-exchange transactions		**183,264,614**	**162,741,150**
Total revenue	21	**195,307,089**	**170,758,445**
Expenditure			
Personnel	28	(47,394,174)	(39,780,749)
Remuneration of councillors	29	(11,039,901)	(10,336,666)
Depreciation and amortisation	32	(28,173,659)	(29,710,268)
Finance costs	33	(68,887)	(1,681)
Debt impairment	30	(303,060)	(3,527,800)
Repairs and maintenance		(6,030,003)	(6,612,344)
Grants and subsidies paid	35	(3,366,280)	(8,062,051)
General expenses	26	(76,270,929)	(66,958,444)
Total expenditure		**(172,646,893)**	**(164,990,003)**
Operating surplus	27	**22,660,196**	**5,768,442**
Gain/(Loss) on disposal of property, plant and equipment	50	(3,931,762)	775,095
Surplus for the year		**18,728,434**	**6,543,537**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	3,424,462	292,862,028	296,286,490
Correction of errors	-	12,025	12,025
Prior year adjustments	-	5,093,594	5,093,594
Balance at 01 July 2012 as restated*	**3,424,462**	**297,967,647**	**301,392,109**
Changes in net assets			
Surplus for the year	-	6,543,537	6,543,537
Total changes	-	6,543,537	6,543,537
Opening balance as previously reported	3,424,462	305,540,307	308,964,769
Adjustments			
Correction of errors	-	(1,029,124)	(1,029,124)
Balance at 01 July 2013 as restated*	**3,424,462**	**304,511,183**	**307,935,645**
Changes in net assets			
Surplus for the year	-	18,728,434	18,728,434
Total changes	-	18,728,434	18,728,434
Balance at 30 June 2014	**3,424,462**	**323,239,617**	**326,664,079**
Note(s)	14		

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Sale of goods and services		3,109,385	5,621,379
Grants		155,890,401	151,742,387
Interest income		2,881,416	2,267,282
Other receipts		2,141,893	3,915,315
		164,023,095	163,546,363
Payments			
Employee costs		(58,434,075)	(50,117,415)
Suppliers		(76,395,288)	(70,639,631)
Finance costs		(68,887)	(1,681)
		(134,898,250)	(120,758,727)
Net cash flows from operating activities	36	**29,124,845**	**42,787,636**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(38,008,694)	(30,688,555)
Proceeds from sale of property, plant and equipment	4	196,675	979,710
Purchase of other intangible assets	5	(142,877)	(73,954)
Transfer of movable assets		(3,366,280)	(8,062,051)
Net cash flows from investing activities		**(41,321,176)**	**(37,844,850)**
Cash flows from financing activities			
Finance lease payments		(73,024)	(172,758)
Net increase/(decrease) in cash and cash equivalents		**(12,269,355)**	**4,770,028**
Cash and cash equivalents at the beginning of the year		61,479,948	56,709,920
Cash and cash equivalents at the end of the year	13	**49,210,593**	**61,479,948**

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	3,077,584	-	**3,077,584**	2,610,142	**(467,442)**	A1
Rental of facilities and equipment	270,000	-	**270,000**	269,873	**(127)**	
Licences and permits	3,500,000	-	**3,500,000**	3,938,247	**438,247**	A2
Other revenue	19,204,853	170,118	**19,374,971**	2,342,797	**(17,032,174)**	
Interest received - investment	1,700,000	500,000	**2,200,000**	2,881,416	**681,416**	
Total revenue from exchange transactions	**27,752,437**	**670,118**	**28,422,555**	**12,042,475**	**(16,380,080)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	3,800,000	-	**3,800,000**	2,772,606	**(1,027,394)**	A4
Government grants & subsidies	90,982,000	11,330,355	**102,312,355**	180,479,958	**78,167,603**	A5
Transfer revenue						
Fines	30,000	-	**30,000**	12,050	**(17,950)**	A6
Total revenue from non-exchange transactions	**94,812,000**	**11,330,355**	**106,142,355**	**183,264,614**	**77,122,259**	
Total revenue	**122,564,437**	**12,000,473**	**134,564,910**	**195,307,089**	**60,742,179**	
Expenditure						
Personnel	(36,373,299)	(4,030,798)	**(40,404,097)**	(47,394,174)	**(6,990,077)**	A7
Remuneration of councillors	(10,040,941)	(1,500,000)	**(11,540,941)**	(11,039,901)	**501,040**	
Depreciation and amortisation	(10,000,000)	(30,000,000)	**(40,000,000)**	(28,173,659)	**11,826,341**	A8
Finance costs	-	-	**-**	(68,887)	**(68,887)**	A9
Debt impairment	-	-	**-**	(303,060)	**(303,060)**	A10
Repairs and maintenance	(11,480,556)	(1,133,248)	**(12,613,804)**	(6,030,003)	**6,583,801**	A11
Grants and subsidies paid	(3,000,000)	(141,312)	**(3,141,312)**	(3,366,280)	**(224,968)**	
General Expenses	(42,908,000)	(45,594,472)	**(88,502,472)**	(76,270,929)	**12,231,543**	A12
Total expenditure	**(113,802,796)**	**(82,399,830)**	**(196,202,626)**	**(172,646,893)**	**23,555,733**	
Operating surplus	**8,761,641**	**(70,399,357)**	**(61,637,716)**	**22,660,196**	**84,297,912**	
Loss on disposal of assets and liabilities	-	-	**-**	(3,931,762)	**(3,931,762)**	A13
Surplus before taxation	**8,761,641**	**(70,399,357)**	**(61,637,716)**	**18,728,434**	**80,366,150**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**8,761,641**	**(70,399,357)**	**(61,637,716)**	**18,728,434**	**80,366,150**	

Reconciliation

Accounting Policies

1. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

Accounting Policies

These accounting policies are consistent with the previous period, except for the changes set our in note 2 Changes in accounting policy.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

Standards Issued and Effective
- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 4 - The Effects of changes in Foreign Exchange Rates (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 26 - Impairment of cash-generating assets
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 101 - Agriculture
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt
- GRAP 20 - Related Party Disclosures
- GRAP 25 - Employee Benefits
- GRAP 27 - Agriculture (replace GRAP 101)
- GRAP 31 - Intangible Assets (replace GRAP 102)
- Improvements to Standards of GRAP

Standards Issued, no Effective Date - can base accounting policy on, cannot early adopt
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

Standards Issued, no Effective Date - cannot use
- GRAP 18 - Segmental Reporting

Interpretations
- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 - Loyalty Programmes
- IGRAP 7 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non-cash Assets to Owners
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

Accounting Policies

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Critical judgements, estimates and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on the history of payments made for municipal services over the last twelve months.

1.2 Critical judgements, estimates and assumptions (continued)

Provisions and contingencies

Management judgement is required when recognising and measuring provisions, and when measuring contingent liabilities, as set out in subsequent notes to the financial statements. Provisions are discounted where the effect of discounting is material using actuarial valuationst

Useful lives of property, plant and equipment

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time. It is a subjective estimate based on management's experience.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

1.3 Property, plant and equipment (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Infrastructure	
• Roads and paving	3 - 50 years
Community	
• Buildings	25 - 50 years
• Recreational facilities	25 - 30 years
• Halls	25 - 50 years
• Libraries	25 - 30 years
• Other assets	25 - 30 years
Heritage	
• Memorials and statues	Indefinite life
• Museums	Indefinite life
• Heritage sites	Indefinite life
• Art works	Indefinite life
Finance lease assets	
• Office equipment	5 years
• Other assets	3 - 6 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.3 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

1.5 Intangible assets (continued)

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

1.6 Heritage assets (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.6 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

1.7 Financial instruments (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.7 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transactions	Financial asset measured at amortised cost
Cash and bank	Financial asset measured at amortised cost
Short term deposits (call accounts)	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.7 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.7 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

1.11 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

1.11 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or

Accounting Policies

1.13 Employee benefits (continued)

- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.14 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

1.14 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

1.16 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.16 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.10 and 1.11. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

1.17 Borrowing costs (continued)

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.21 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2013 to 30/06/2014.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

1.26 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Recovery of unauthorised, irregular, fruitless and wasteful expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable.The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

1.28 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
b) those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements.

Notes to the Financial Statements

Figures in Rand	2014	2013

2. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 21 - Impairment of non cash generating assets
- GRAP 23 - Revenue from non-exchange transactions
- GRAP 24 - Presentation of budget information
- GRAP 26 - Impairment of cash generating assets
- GRAP 103 - Heritage assets
- GRAP 104 - Financial instruments

GRAP 4 - Financial instrument

During the year, the municipality changed its accounting policy with respect to the treatment of financial instruments in order to conform with the benchmark treatment in terms of GRAP 104. GRAP 104, para 87 states that the short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Based on the assessment made it was noted that the initial credit period granted by the municipality was consistent with the terms used in the public sector, through established practices. The municipality did not discount short-term receivables or payables in previous periods as the effect was immaterial. The change in accounting policy therefore had no impact on the financial statements.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

3.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

3.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

3.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Notes to the Financial Statements

3. New standards and interpretations (continued)

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

3. New standards and interpretations (continued)

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has adopted the standard for the first time in the 2014 financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

Notes to the Financial Statements

3. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Notes to the Financial Statements

3. New standards and interpretations (continued)

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

Notes to the Financial Statements

3. New standards and interpretations (continued)

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

Paragraphs .07, .08, .19, .22, .23, .37, .38, .40, .45 and .46 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Recognition and measurement and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:
- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity’s own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity’s information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website’s development can be described as follows:
- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website’s development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

3. New standards and interpretations (continued)

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

Notes to the Financial Statements

3. New standards and interpretations (continued)

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

4. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	5,218,000	-	5,218,000	5,218,000	-	5,218,000
Buildings	3,394,833	(421,353)	2,973,480	3,005,707	(322,132)	2,683,575
Landfill sites	2,090,820	(317,476)	1,773,344	2,090,820	(245,652)	1,845,168
Plant and machinery	13,576,780	(9,063,518)	4,513,262	13,684,378	(7,195,140)	6,489,238
Furniture and fixtures	2,828,618	(1,217,218)	1,611,400	2,581,552	(1,009,019)	1,572,533
Motor vehicles	15,547,699	(6,961,266)	8,586,433	12,943,661	(5,281,739)	7,661,922
IT equipment	2,493,477	(1,178,197)	1,315,280	2,388,752	(1,108,007)	1,280,745
Leased assets	-	-	-	770,422	(706,614)	63,808
Infrastructure	312,022,683	(100,829,325)	211,193,358	283,099,975	(79,279,401)	203,820,574
Community	36,173,769	(4,278,664)	31,895,105	36,173,769	(3,061,650)	33,112,119
Under construction	23,894,994	-	23,894,994	23,423,545	-	23,423,545
Total	**417,241,673**	**(124,267,017)**	**292,974,656**	**385,380,581**	**(98,209,354)**	**287,171,227**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Class Transfers	Fair vlaue assets	Depreciation	Total
Land	5,218,000	-	-	-	-	-	5,218,00
Buildings	2,683,575	389,126	-	-	-	(99,221)	2,973,48
Landfill sites	1,845,168	-	-	-	-	(71,824)	1,773,34
Plant and machinery	6,489,238	76,150	(34,664)	-	143	(2,017,605)	4,513,26
Furniture and fixtures	1,572,533	256,166	-	-	-	(217,299)	1,611,40
Motor vehicles	7,661,922	2,604,038	-	-	-	(1,679,527)	8,586,43
IT equipment	1,280,745	587,847	(149,041)	-	13,499	(417,770)	1,315,28
Leased assets	63,808	-	-	-	-	(63,808)	
Infrastructure	203,820,574	12,734,121	(3,944,732)	20,889,797	-	(22,286,452)	211,193,35
Community halls	33,112,119	-	-	-	-	(1,217,014)	31,895,10
Under construction	23,423,545	21,361,246	-	(20,889,797)	-	-	23,894,99
	287,171,227	**38,008,694**	**(4,128,437)**	**-**	**13,642**	**(28,070,520)**	**292,974,65**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land	5,218,000	-	-	-	-	5,218,000
Buildings	2,328,737	438,007	-	-	(83,169)	2,683,575
Landfill sites	2,090,820	-	-	-	(245,652)	1,845,168
Plant and machinery	7,050,415	229,250	(66,236)	-	(724,191)	6,489,238
Furniture and fixtures	1,156,067	159,002	(69,599)	327,063	-	1,572,533
Motor vehicles	6,891,919	3,318,108	(52,916)	-	(2,495,189)	7,661,922
IT equipment	608,667	323,748	(15,864)	364,194	-	1,280,745
Leased assets	193,044	-	-	-	(129,236)	63,808
Infrastructure	208,217,578	21,392,590	-	-	(25,789,594)	203,820,574
Community halls	33,630,925	415,687	-	-	(934,493)	33,112,119
Under construction	19,011,382	4,412,163	-	-	-	23,423,545
	286,397,554	**30,688,555**	**(204,615)**	**691,257**	**(30,401,524)**	**287,171,227**

Assets subject to finance lease (Net carrying amount)

	2014	2013
Copiers	-	63,808

4. Property, plant and equipment (continued)

Details of valuation

Land and buildings

The effective date of the revaluations was and this was de-escalated based on market conditions to provide a value as at 1 July 2009. Revaluations were performed by Penny Lindstrom who is a Professional Valuer (Reg. N0 935/7) from Penny Lindstrom Valuations cc. Mrs Lindstrom is not connected to the entity.

Land and buildings are re-valued independently every 4 years. However, the municipality received an extension in the validity of the 2009 General Valuation Roll in terms of Section 32(2)(b) of the Local Government: Municipal Property Rates Act of 2004 by the MECof Local Government & Traditional Affairs for one financial period ending 30 June 2014.

The valuation was performed using the following methods:
• Direct Comparison Method was used for residential properties and vacant land. This was based on arms-length transactions which had taken place during the period.
• The Capitalization of Income Method was used for all properties from which an income was derived i.e. Investment Properties. Other.
• The Discounted Replacement Value Method was used for properties which were used by the Municipality in their enterprise and therefore do not generate any income. i.e. offices, workshops etc. Factors considered to determine the discount rate, using this method, are the condition and age of the improvement as well as it’s functionality and position.

All assumptions were based on current market conditions.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2014			2013		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	695,617	(302,472)	393,145	552,741	(199,333)	353,408

Reconciliation of intangible assets - 2014

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	353,408	142,877	(103,140)	393,145

Reconciliation of intangible assets - 2013

	Opening balance	**Additions**	**Total**
Computer software	279,454	73,954	353,408

6. Other financial assets

Notes to the Financial Statements

Figures in Rand	2014	2013

7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2014

	Amortised cost	Total
Receivables from exchange transactions	2,587,395	2,587,395
Receivables from non-exchange transactions	703,419	703,419
Cash and bank	7,118,799	7,118,799
Short term deposits (Call accounts)	42,037,008	42,037,008
VAT Receivable	4,522,360	4,522,360
	56,968,981	**56,968,981**

2013

	Amortised cost	Total
Receivables from exchange transactions	551,092	551,092
Receivables from non-exchange transactions	769,420	769,420
Cash and bank	2,563,225	2,563,225
Short term deposits (Call accounts)	57,860,317	57,860,317
VAT Receivable	101,286	101,286
	61,845,340	**61,845,340**

8. Retirement benefit obligations

Defined contribution plan

The following are defined contribution plans: SAMWU Provident Fund, Cape Joint Pension Fund, National Fund for Municipal Workers and Councillors' Pension Fund. These contributions have been expensed. These funds have been registered and governed under the Pension Fund Act, 1956 as amended.
There are 100 employees that belong to the SAMWU Provident Fund (2013: 155), 54 employees that belong to the Cape Joint Pension Fund (2013: 50), 1 employee that belongs to the National Fund for Municipal Workers and there are 2 councillors that belong to the Councillors' Pension Fund (2013: 2).

Amounts contributed to the plans are as follows:

	2014	2013
SAMWU Provident Fund		
- employer	1,867,644	1,777,383
- employee	933,823	888,692
	2,801,467	**2,666,075**
Cape Joint Pension Fund		
- employer	1,291,733	1,058,482
- employee	650,233	531,243
	1,941,966	**1,589,725**
Councillors' Pension Fund		
- employee	221,168	207,027
National Fund of Municipal Workers		
- employee	97,508	-

8. Retirement benefit obligations (continued)

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

9. Inventories

Stores - Stock on hand	619,669	990,150
Unsold Water Supply	142,749	103,416
	762,418	**1,093,566**

Inventory written down to net realisable value	619,669	990,150
Inventories recognised as an expense during the year	655,560	549,721

Stock on hand was written down to net realisable value based on market value less cost to sell goods calculated at 29.64% (VAT inclusive).

10. Receivables from exchange transactions

Service debtors	536,901	547,668
Creditors with debit balances	74,822	-
Chris Hani District Municipality Debtor	1,975,673	-
SARS	-	3,424
	2,587,396	**551,092**

Figures in Rand	2014	2013

10. Receivables from exchange transactions (continued)

Service debtors

Sanitation		
Gross balance	937,993	884,730
Less: Provision for bad debts	(761,337)	(734,516)
	176,656	**150,214**

Sanitation: Ageing		
Current (0 - 30 days)	119,593	111,312
30 - 60 days	37,275	32,670
60 - 90 days	29,937	28,189
+ 90 days	751,188	712,559
	937,993	**884,730**

Water		
Gross balance	1,185,633	1,226,193
Less: Provision for bad debts	(950,623)	(961,153)
	235,010	**265,040**

Water: Ageing		
Current (0 - 30 days)	171,275	188,181
30 - 60 days	46,768	49,792
60 - 90 days	31,372	43,986
+ 90 days	936,218	944,234
	1,185,633	**1,226,193**

Refuse		
Gross balance	520,801	577,811
Less: Provision for bad debts	(404,142)	(453,889)
	116,659	**123,922**

Refuse: Ageing		
Current (0- 30 days)	104,003	105,178
30 - 60 days	25,650	26,843
60 - 90 days	19,502	22,322
+ 90 days	371,646	423,468
	520,801	**577,811**

Leases		
Gross balance	64,383	48,889
Less: Provision for bad debts	(55,807)	(40,396)
	8,576	**8,493**

Leases: Ageing		
Current (0- 30 days)	(11,507)	2,882
60 - 90 days	6,000	-
+ 90 days	69,890	46,007
	64,383	**48,889**

Figures in Rand	2014	2013

10. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties without external credit rating		
Government (A)	33,589	109,078
Business (B)	168,779	175,833
Other (C)	334,533	262,757
	536,901	**547,668**

Group A – These debtors are of good credit quality and no default as expected.

Group B - These debtors are usually good payers but there is a possibility that the debtor may not be able to pay on time.

Group C – These debtors usually pay, but have previously paid later and therefore there is a possibility that these debtors will not be recoverable.

Trade and other receivables past due but not impaired

At 30 June 2014, R 485,568 (2013: R 502,517) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	109,694	132,485
2 months past due	86,811	62,871
3 months past due	75,930	31,538
> 3 months past due	213,133	275,623

Reconciliation of doubtful debt provision

Opening balance	(2,188,955)	(779,070)
Provision for impairment	(123,197)	(2,215,036)
Amounts written off as uncollectible	140,243	805,151
	(2,171,909)	**(2,188,955)**

11. Receivables from non-exchange transactions

Rates	2,975,402	3,026,619
Less: Provision for doubtful debts	(2,301,483)	(2,257,199)
Sundry debtors (Refer to Note 44)	29,500	-
	703,419	**769,420**

Rates: Ageing		
Current (0- 30 days)	(27,464)	16,391
30 - 60 days	10,688	7,445
60 - 90 days	11,747	7,763
+ 90 days	2,980,431	2,995,020
	2,975,402	**3,026,619**

Figures in Rand	2014	2013

11. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions

Counterparties without external credit rating		
Government (A)	(3,293)	18,768
Business (B)	168,005	124,484
Other (C)	509,207	626,168
	673,919	**769,420**

Receivables from non-exchange transactions past due but not impaired

At 30 June 2014, R 369,352 (2013: R 693,155) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	10,688	182,745
2 months past due	11,747	86,723
3 months past due	12,362	43,503
> 3 months	334,555	380,185

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(2,257,199)	(931,704)
Provision for impairment	(195,879)	(1,584,703)
Amounts written off as uncollectible	151,595	259,208
Balance at year end	**(2,301,483)**	**(2,257,199)**

12. VAT receivable

VAT receivable	4,522,360	101,286

The municipality is registered for VAT on the payment basis.

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	2,825
Bank balances	7,118,799	5,064,953
Call accounts	42,091,794	56,412,170
	49,210,593	**61,479,948**

13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
First National Bank - Public Sector Cheque Acc (Account number: 52171242061)	2,483,282	3,610,854	3,303,169	2,185,506	3,616,805	3,303,169
First National Bank - Municipal Infrastructure Grant (Account number: 62095050523)	8,337,219	13,129,743	11,819,370	8,337,219	13,129,743	11,819,370
First National Bank - Municipal Systems Improvement Grant (Account number: 62095030426)	12,508	12,230	645,342	12,508	12,230	659,642
First National Bank - Self Insurance Fund (Account number: 62101651976)	-	-	270,335	-	-	270,335
First National Bank - Finance Management Grant (Account number: 62095026524)	13,755	10,283	1,382,869	13,755	10,283	1,382,869
Meeg Bank Investment (Account number: 9191868465)	-	194	661,224	185	185	661,224
First National Bank - Municipal Admin Programme (Account number: 62095023728)	-	-	103,484	-	-	103,484
First National Bank - Extended Public Works Program (Account number: 62095029148)	2,000	1,990	57,188	2,000	1,990	57,188
First National Bank - ELM Main Investment Acc (Account number: 62024356570)	28,826,697	17,417,485	2,419,522	28,826,697	17,417,485	2,419,522
First National Bank - Small Town Revitalisation (Account number: 61217013327)	4,263,989	395,311	2,008	4,263,989	395,311	2,008
First National Bank - Equitable Share (Account number: 62012728484)	634,441	2,638,014	33,832,372	634,441	2,638,014	33,832,372
Standard Bank - Employee Levy Fund (Account number: 287133591)	-	-	60,401	-	-	60,401
First National Bank - DBSA Investment (Account number: 61217016107)	-	-	429,133	-	-	429,133
First National Bank - Electrification Grant (Account number: 62027299967)	1,000	22,806,928	37,629	1,000	22,806,928	37,629
First National Bank - Water Services (Account number: 62286911146)	4,933,293	1,461,788	1,668,749	4,933,293	1,448,148	1,668,749
Total	**49,508,184**	**61,484,820**	**56,692,795**	**49,210,593**	**61,477,122**	**56,707,095**

14. Revaluation reserve

	2014	2013
Opening balance	3,424,462	3,424,462
Change during the year	-	-
	3,424,462	**3,424,462**

Notes to the Financial Statements

Figures in Rand	2014	2013

15. Other financial liabilities

16. Finance lease obligation

Amounts payable under finance lease		
- within one year	-	75,945
- in second to fifth year inclusive	-	-
	-	75,945
less: future finance charges	-	(2,921)
Present value of minimum lease payments	**-**	**73,024**

It is municipality policy to lease certain equipment under finance leases. The municipality leases photo copiers from Tsolo Office Machinery and Nashua. The lease term is for 2 years commencing March 2011 for the Tsolo lease and 5 years for the Nashua lease which commenced in March 2008. Interest rates are fixed at the contract date. The Tsolo and Nashua leases have fixed repayment rates of R 24,800.00 and R 6,446.70 per month respectively. No arrangements have been entered into for contingent rent. However, the lease contracts with Tsolo and Nashua expired during the current financial period.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	-	73,024

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note .

The fair value of finance lease liabilities approximates their carrying amounts.

17. Unspent conditional grants and receipts

Unspent conditional grants from other spheres of government

Unspent conditional grants and receipts		
Electrification Grant	-	22,570,616
Municipal Infrastructure Grant	-	5,178,425
Finance Municipal Grant	-	3,712
Charcoal and Small Town Revitalisation Grant	2,799,198	1,268,378
Mgwali Grant	388,187	388,187
Municipal Systems Improvement Grant	-	-
Chris Hani District Municipality Grant	-	631,179
Library Grant	723,596	473,401
Other Grants	2,020,785	7,425
	5,931,766	**30,521,323**

Movement during the year

Balance at the beginning of the year	30,521,324	38,974,577
Additions during the year	67,481,236	85,033,286
Income recognition during the year	(92,070,794)	(93,486,540)
	5,931,766	**30,521,323**

Non-current liabilities	-	-
Current liabilities	5,931,766	30,521,323
	5,931,766	**30,521,323**

17. Unspent conditional grants and receipts (continued)

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 24 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Electrification grant - Used solely on the electrification of households within Engcobo jurisdiction.
EPWP - This should be used on the employment of Engcobo residents.
Small Town revatilisation - Funds should only be spent on revitilizing Engcobo
Mgwali Projects - Funds to be spent on Mgwali projects alone.
Charcoal - Funds should only be spent on charcoal projects.
MIG - Funds should only be spent on infrastructure roads.
MSIG - Funds should be spent on systems improvement only by the municipality.
FMG - Funds should only be spent on improving the financial systems of the municipality.
Wattle Eradication Grant - Funds to eradicate alien vegetation.

18. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Total
Provision for performance bonuses	-	205,272	-	205,272
Provision for long services bonuses	112,787	109,437	(109,171)	113,053
Current portion of landfill site restoration provision	1,936,278	16,261	-	1,952,539
	2,049,065	**330,970**	**(109,171)**	**2,270,864**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for long services bonuses leave	62,916	49,871	112,787
Current portion of landfill site preparation provision	1,917,362	18,916	1,936,278
	1,980,278	**68,787**	**2,049,065**

Provision for long service bonus
This provison relates to expected outflows of economic benefits associated with paying employees that have completed a cycle of 5 years in the employ of the municipality .

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation using an interest rate of 2.6%. Improvements are being made to the site. The life expectancy as at the end of the financial year was 134 years.

Figures in Rand	2014	2013

19. Payables from exchange transactions

Trade payables	11,527,385	6,605,604
Salaries	182	1,165,586
Accrued leave pay	2,494,605	2,103,361
Deposits received	238,485	166,492
Accruals	2,026,621	899,846
	16,287,278	**10,940,889**

20. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2014

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	16,297,278	16,297,278

2013

	Financial liabilities at amortised cost	Total
Finance lease liabilities	73,024	73,024
Payables from exchange transactions	7,505,450	7,505,450
	7,578,474	**7,578,474**

21. Revenue

Service charges	2,610,142	2,674,789
Rental of facilities and equipment	269,873	177,080
Licences and permits	3,938,247	2,465,368
Miscellaneous other revenue	2,342,797	432,776
Interest received - investment	2,881,416	2,267,282
Property rates	2,772,606	2,866,382
Government grants & subsidies	180,479,958	159,839,798
Fines	12,050	34,970
	195,307,089	**170,758,445**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	2,610,142	2,674,789
Rental of facilities and equipment	269,873	177,080
Licences and permits	3,938,247	2,465,368
Other income	2,342,797	432,776
Interest received - investment	2,881,416	2,267,282
	12,042,475	**8,017,295**

Figures in Rand	2014	2013

21. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	2,772,606	2,866,382
Transfer revenue		
Other fees	180,479,958	159,839,798
Fines	12,050	34,970
	183,264,614	**162,741,150**

22. Property rates

Rates received

Property rates	2,772,606	2,866,382

Valuations

Residential	102,708,011	102,708,011
Commercial	122,405,225	122,405,225
State	193,729,017	193,729,017
Municipal	36,121,449	36,121,449
	454,963,702	**454,963,702**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. However, the municipality received an extension in the validity of the 2009 General Valuation Roll in terms of Section 32(2)(b) of the Local Government: Municipal Property Rates Act of 2004 by the MECof Local Government & Traditional Affairs for one financial period ending 30 June 2014.

A general rate of R 0.0132 (2013: R 0.0132) is applied to property valuations to determine assessment rates. Rebates of R15,000 and 20% (2013: R15,000 and 20%) are granted to residential and state property owners respectively.

Rates are levied on an annual basis with the final date for payment being 30 June 2014 (30 June 2013).

The new general valuation will be implemented on 01 July 2014.

23. Service charges

Sale of water	1,155,899	1,226,943
Sewerage and sanitation charges	775,152	748,080
Refuse removal	679,091	699,766
	2,610,142	**2,674,789**

Figures in Rand	2014	2013

24. Government grants and subsidies

Equitable share	86,604,000	76,102,485
Electricification Grant	26,570,616	34,024,451
Municipal Infrastructure Grant	36,435,425	20,807,248
Finance Municipal Grant	1,553,712	1,568,810
Small Town Revitalisation Grant	3,319,180	2,092,522
EPWP Grant	1,000,000	1,000,097
Municipal Systems Improvement Grant	890,000	800,000
Chris Hani District Municipality Grant	21,132,615	21,926,485
Library Grant	337,805	114,599
Other Grants	2,636,605	1,403,101
	180,479,958	**159,839,798**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 50% of basic charge for water and sanitation and 6 kilolitres of free water, which is funded from the grant.

Electrification Grant

Balance unspent at beginning of year	22,570,616	26,595,067
Current-year receipts	4,000,000	30,000,000
Conditions met - transferred to revenue	(26,570,616)	(34,024,451)
	-	**22,570,616**

Conditions still to be met - remain liabilities (see note 17).

Municipal Infrastructure Grant

Balance unspent at beginning of year	5,178,425	10,555,158
Current-year receipts	31,257,000	26,227,000
Conditions met - transferred to revenue	(36,435,425)	(28,825,962)
Amounts surrendered to National Treasury	-	(2,777,771)
	-	**5,178,425**

Conditions still to be met - remain liabilities (see note 17).

Finance Management Grant

Balance unspent at beginning of year	3,712	72,522
Current-year receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,553,712)	(1,568,810)
	-	**3,712**

Conditions still to be met - remain liabilities (see note 17).

Small Town Revitalisation

Balance unspent at beginning of year	1,268,378	1,088,267
Current-year receipts	4,850,000	2,272,632
Conditions met - transferred to revenue	(3,319,180)	(2,092,521)
	2,799,198	**1,268,378**

Figures in Rand	2014	2013

24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

Mgwali Grant

Balance unspent at beginning of year	388,187	388,187
Conditions met - transferred to revenue	-	-
	388,187	**388,187**

Conditions still to be met - remain liabilities (see note 17).

EPWP Grant

Balance unspent at beginning of year	-	97
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,097)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

Municipal Systems Improvement Grant

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

Chris Hani District Municipality Grant

Balance unspent at beginning of year	631,179	-
Current-year receipts	20,501,436	22,557,664
Conditions met - transferred to revenue	(21,132,615)	(21,926,485)
	-	**631,179**

Conditions still to be met - remain liabilities (see note 17).

Libary Grant

Balance unspent at beginning of year	473,401	-
Current-year receipts	588,000	588,000
Conditions met - transferred to revenue	(337,805)	(114,599)
	723,596	**473,401**

Conditions still to be met - remain liabilities (see note 17).

Other grants

Balance unspent at beginning of year	7,425	275,278
Current-year receipts	2,844,800	1,135,248
Conditions met - transferred to revenue	(831,440)	(1,403,101)
	2,020,785	**7,425**

Conditions still to be met - remain liabilities (see note 17).

Notes to the Financial Statements

Figures in Rand	2014	2013

24. Government grants and subsidies (continued)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

25. Other income

Agricultural Fees	139,425	69,750
LG SETA	160,454	26,633
Cemetery Fees	2,372	2,418
Library Fees	11,099	20,867
Pound Fees	879	6,726
Swimming Pool Fees	689	1,939
VAT Claims	-	32,157
Tender Fees	208,316	128,072
Sundry Income	1,741,495	84,205
Reconnection Fees	25,390	21,227
Plantation Fees	259	-
Clearance Certificates	360	238
Fair value adjustment	13,643	-
Sewer Line Connection Fees	877	-
Blocked Drains Clearance	1,241	3,516
Entrannce Fees - Toilets	9,474	9,503
Septic Tanks	526	2,575
Building Plan Fees	4,825	18,947
Insurance claimable	12,028	-
Burial Fees	492	-
Connection Fees	8,953	4,003
	2,342,797	**432,776**

Notes to the Financial Statements

Figures in Rand	2014	2013

26. General expenses

Advertising	725,542	501,302
Membership fees	47,542	6,000
Auditors remuneration	3,532,638	3,016,145
Bank charges	310,564	239,447
Cleaning	217,665	224,102
Legal expenses	381,352	226,739
Consulting fees	11,467	439,912
Stock and material	1,005,331	616,743
Project management unit	379,545	295,006
Entertainment	336,051	223,202
Systems Improvement	221,112	40,000
Insurance	242,412	343,708
Study of rural component	-	42,285
Conferences and delegations	2,695,493	125,454
Lease rentals on operating lease	1,141,073	1,659,383
Small Town Revitalisation	2,287,038	-
Levies paid	8,564	6,177
Development of policies and bylaws	439,641	165,240
Fuel & Oil	4,293,817	4,264,588
Charcoal projects	317,895	88,290
Postage	9,880	5,819
Printing & Stationery	771,332	579,019
Special programmes unit	698,314	578,805
Uniforms and overalls	254,500	109,360
Performance management systems	950,410	207,292
Security costs	2,045,996	1,343,453
Membership fees	17,600	6,000
Telephone and fax	1,368,026	1,001,187
Development of policies and bylaws	24,570	885,282
Accommodation & meals	140,947	147,581
Refuse bags and bins	241,611	712,906
Skills development & capacity building	679,969	28,184
Electricity purchases	904,146	674,461
Water reticulation	3,066,698	3,922,614
HIV/AIDS Porogramme	547,506	562,383
Electrification expenses - DME	27,741,000	29,846,003
Disaster support	108,620	236,841
Mayoral fund and mbizo	475,435	257,966
Intergrated development plan	766,711	655,906
Indigent Subsidy	1,489,118	805,228
Professional fees	5,644,149	5,599,154
Marketing: LED Strategy	65,789	-
Ward committee programmes	3,280,665	2,849,000
Rehabilitation of landfill sites	16,261	18,917
Other expenses	6,367,315	3,401,802
	76,270,929	**66,958,444**

Notes to the Financial Statements

Figures in Rand	2014	2013

27. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	1,141,073	1,659,383

(Loss) gain on sale of property, plant and equipment	(3,931,762)	775,095
Amortisation on intangible assets	103,139	-
Depreciation on property, plant and equipment	28,070,520	29,710,268
Employee costs	58,434,075	50,117,415

Notes to the Financial Statements

Figures in Rand	2014	2013

28. Employee related costs

Basic	29,859,408	24,824,750
Medical aid - company contributions	4,621,098	4,150,754
Travel, motor car, accommodation, subsistence and other allowances	6,229,928	6,127,990
Overtime payments	1,214,577	917,876
Housing benefits and allowances	52,318	53,116
Other employee related costs	5,416,845	3,706,263
	47,394,174	**39,780,749**

Remuneration of municipal manager

Annual Remuneration	809,084	703,854
Travel, motor car, accommodation, subsistence, and other allowances	211,665	156,423
Contributions to UIF, Medical and Insurance Funds	11,189	1,713
Performance bonus	43,011	-
Remuneration paid	(1,074,949)	(861,990)
	-	-

Remuneration of chief finance officer

Annual Remuneration	656,114	557,740
Travel, motor car, accommodation, subsistence, and other allowances	241,576	199,803
Contributions to UIF, Medical and Insurance Funds	10,022	1,713
Performance bonus	37,556	-
Remuneration paid	(945,268)	(759,256)
	-	-

Remuneration of director: technical services

Annual Remuneration	701,640	602,095
Travel, motor car, accommodation, subsistence, and other allowances	229,295	133,513
Contributions to UIF, Medical and Insurance Funds	9,951	1,713
Performance bonus	29,422	-
Remuneration paid	(970,308)	(737,321)
	-	-

Remuneration of director: corporate services

Annual Remuneration	634,306	477,523
Travel, motor car, accommodation, subsistence, and other allowances	280,469	205,597
Contributions to UIF, Medical and Pension Funds	9,554	1,713
Performance bonus	22,067	-
Remuneration paid	(946,396)	(684,833)
	-	-

Remuneration of director: community services

Annual Remuneration	78,464	375,817
Travel, motor car, accommodation, subsistence, and other allowances	-	78,362
Performance Bonuses	2,906	-
Contributions to UIF, Medical and Pension Funds	-	1,118
Remuneration paid	(81,370)	(455,297)
	-	-

Notes to the Financial Statements

Figures in Rand	2014	2013

28. Employee related costs (continued)

The director: community services' contract expired in January 2013. The TROCA Manager is currently acting in this position.

Remuneration of director: IPED

Annual Remuneration	568,444	-
Travel, motor car, accommodation, subsistence, and other allowances	228,322	-
Contributions to UIF, Medical and Pension Funds	87,431	-
Remuneration paid	(884,197)	-
	-	**-**

29. Remuneration of councillors

Mayor	698,694	624,332
Speaker	563,129	515,512
Councillors allowances	2,978,405	3,815,029
Councillors’ pension contribution	55,518	103,176
Councillors' salaries	6,744,155	5,278,617
	11,039,901	**10,336,666**

In-kind benefits

The Mayor, Speaker and one member of the Executive Council (Chief Whip) are full-time. The Mayor and Speaker are provided with office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor pays for electricity, refuse and water on own account. The Mayor and Speaker have use of a Council owned vehicle for official duties.

30. Debt impairment

Contributions to debt impairment provision	303,060	3,527,800

31. Investment revenue

Interest revenue		
Bank	2,881,416	2,267,282

32. Depreciation and amortisation

Property, plant and equipment	28,070,520	29,710,268
Intangible assets	103,139	-
	28,173,659	**29,710,268**

33. Finance costs

Interest on overdue accounts	68,887	-
Finance lease obligation	-	1,681
	68,887	**1,681**

34. Auditors' remuneration

Fees	3,532,638	3,016,145

Figures in Rand	2014	2013

35. Grants and subsidies paid

Other subsidies		
Transfer of movable assets	3,366,280	8,062,051

Represents transfer of assets to Chris Hani District Municipality at cost.

36. Cash generated from operations

Surplus	18,728,434	6,543,537
Adjustments for:		
Depreciation and amortisation	28,173,659	29,710,268
Loss on sale of property, plant and equpment	3,931,762	(775,095)
Debt impairment	303,060	3,527,800
Contributions to provisions - current	221,799	68,787
CHDM wite offs	3,366,280	8,062,051
Other non-cash items	6,308	-
Changes in working capital:		
Inventories	331,148	(186,897)
Receivables from exchange transactions	(2,036,304)	2,164,229
Debt impairment	(303,060)	(3,527,800)
Non-cash movement in property, plant and equipment prior period corrections	66,001	1,387,061
Payables from exchange transactions	5,346,389	3,455,410
VAT	(4,421,074)	(352,371)
Unspent conditional grants and receipts	(24,589,557)	(8,453,253)
Other non cash items - correction of prior period error	-	5,418
Prior year error - understatement of VAT Output	-	1,158,491
	29,124,845	**42,787,636**

37. Commitments

Authorised capital expenditure

Approved and contracted for		
• Infrastructure	3,052,445	3,217,120
• Electrification	12,368,337	22,079,502
• CHDM Other	1,534,244	1,597,123
• Other	4,377,557	2,481,793
	21,332,583	**29,375,538**

This committed expenditure will be financed by government grnts.

Notes to the Financial Statements

Figures in Rand	2014	2013

38. Contingencies

Noxolo Palmer Mahlanyana vs Engcobo Municipality - The Applicant instituted an application directing the Municipality to re-instate and pay her an amount of R500-00 per month with effect from the 25th day of October 2009 until the termination of her employment contract. The Applicant brought this application before the court after the municipality terminated her housing allowance in the amount of R500-00 per month. We opposed the application and instituted counter claim, claiming the total amount of R16 500-00, which is the amount the Applicant has been unduly enriched at the expense of the municipality. This matter has been finalized. The Applicant withdrew her application and tendered to pay the municipal legal costs. We are still waiting for taxation date which will reflect the actual amount due to the municipality.	80,000	150,000
Phumzile Kilwa vs Engcobo Municipality - Phumzile Kilwa has instituted action against Municipality for alleged unlawful suspension from work. The pleadings have been closed in this matter and it is ready for trial. Both of our special pleas have been dismissed. This matter shall be set down for hearing. Having been postponed on the 06 May 2014.	130,000	30,000
Sibongiseni and Lusanda Grace Mpika vs Engcobo Municipality - The applicants brought the application before court against municipality for disclosure of the information in terms of Access of Information Act 2 of 2000. The heads of argument have been filed. This matter has been set down for hearing in the opposed motion court on 9 May 2014.	150,000	150,000
Vuyani Macingwane vs Engcobo Municipality - Vuyani Macingwane instituted action against Municipality for the alleged defamatory statements made publicly by the Municipal Manager. This pleadings in this matter have been closed.	30,000	30,000
Sithilanga Kupa vs Engcobo Municipality - Sithilanga Kupa is demanding the amount of R 1,500,000 from the municipality for bodily injuries allegedly sustained by him in a motor vehicle accident which occurred on the 18 December 2013 at the Gubenxa Administrative Area in the district of Engcobo due to negligence of the municipal employees or its contractor whilst constructing or maintaining the road.	150,000	150,000
Zamindawo Gqira vs Engcobo Municipality - Zamindawo Gqira brought an application against the Engcobo Municipality for the reconstruction of his buliding structure allegedly demolished by the municipality unlawfully.	150,000	150,000
Jehovah's Witness Congregation vs Engcobo Municipality - The municipality erroneously sold one piece of land, Erf 378 (now Erf 2215) to two different organisations namely the Jehovah's Witness Congregation and the Old Apostolic Church. The Old Apostolic Church produced the title deed but there was no proof of purchase of the land whereas the Jehovah's Witness Congregation produced proof of purchasing of the land but have no title deed. The issue is ownership of the land.	50,000	20,000
Nobulali Abraham vs Engcobo Municipality - This is an action instituted by the Plaintiff Nobulali Abraham against the municipality for damages allegedly suffered by her whilst she was walking down the street and fell into an uncovered four cornered valve drainage and sustained a broke ankle.	1,150,000	-
Engcobo Municipality vs Masithwalisane Small Businesses and Others - This is an application brought by the municipality for eviction of the municipal land invaders behind Spargs Supermarket.	200,000	-
Engcobo Municipality vs Gqirha Thembela and Others - The Municipality made an application for interdict prohibiting the Respondents from subdividing the municipal land and erecting dwellings on the land referred to as Emaplangeni.	100,000	-
Naledi Coach Services and DMJ Transport vs Engcobo municipality - This is an application instituted by the Applicants against the municipality for an interdict restraining the municipality and Engcobo Local Forum from preventing the Applicants from picking and loading passengers in the district of Engcobo and surrounding areas.	150,000	-
	2,340,000	**680,000**

Notes to the Financial Statements

Figures in Rand	2014	2013

39. Related parties

Relationships

Joint ventures	None identified
Associates	None identified
Close family member of key management	None identified
Other related party relationships	None identified
Compensation to councillors and other key management	Refer to note 29
Post employment benefit plan for employees of entity and/or other related parties	None identified
Members of key management	Refer to note 28

Figures in Rand	2014	2013

40. Prior period errors

The correction of the error(s) results in adjustments as follows:

Statement of financial position
Property, plant and equipment

	2014	2013
As previously stated	-	282,137,654
Increase in property, plant and equipment due to intial recogntion of assets previously not recognised	-	5,084,985
Decrease in property, plant and equipment due to understatement of depreciation	-	(71,364)
Increase in property, plant and equipment due to asset incorrectly misallocated to expenditure	-	19,951
	-	**287,171,226**

40. Prior period errors (continued)

VAT Control		
As previously stated	-	1,259,778
Decrease in VAT Control due understatement of VAT output	-	(1,158,492)
	-	**101,286**

Intangible assets	**2013**	**Previous year**
As previously stated	173,820	270,846
Increase in intangible assets due to overstatement of amortisation	8,608	8,608
Increase in intangible assets due to overstatement of amortisation	170,980	-
	353,408	**279,454**

Payables from exchange transactions	2013
As previously stated	(10,992,187)
Decrease in payables due to overstatement of audit fees	239,487
Increase in payables due to understatement of SDL	(188,189)
	(10,940,889)

Receivables from exchange transactions	**2013**
As previously stated	580,806
Decrease in receivables due to sanitation billed incorrectly	(29,714)
	551,092

Receivables from non-exchange transactions	**2013**
As previously stated	796,420
Decrease in receivables due to rates billed incorrectly	(27,000)
	769,420

Accumulated surplus	**2013**	**Previous year**
As previously stated	(292,862,028)	(292,862,028)
Increase in accumulated surplus due to initial recognition of assets previously not recognised	(5,084,985)	(5,084,985)
Increase in accumulated surplus due to overstatement of amortisation	(8,608)	(8,608)
Increase in accumulated surplus due to revenue misallocated to expenditure	(12,025)	(12,025)
Increase in accumulated surplus due to overstatement of amortisation	(170,980)	-
Decrease in accumulated surplus due to understatement of depreciation	71,364	-
Increase in accumulated surplus due to asset incorrectly misallocated to expenditure	(19,951)	-
Increase in accumulated surplus due to overstatement of audit fees	(239,487)	-
Decrease in accumulated surplus due to understatement of SDL	188,189	-
Decrease in accumulated surplus due to rates billed incorrectly	27,000	-
Decrease in accumulated surplus due to sanitation billed incorrectly	29,714	-
Decrease in accumulated surplus due to understatement of VAT output	1,158,492	-
	(296,923,305)	**(297,967,646)**

Statement of financial performance	**2013**
Property rates	-
As previously stated	(2,893,382)
Decrease in rates revenue due to rates billed incorrectly	27,000
	(2,866,382)

Service charges	**2013**
As previously stated	(2,704,504)
Decrease in sanitation revenue due to sanitation billed incorrectly	29,714

40. Prior period errors (continued)

	(2,674,790)

Depreciation and amortisation	**2013**
As previously stated	29,809,884
Increase in depreciation due to understatement of depreciation of assets	71,364
Decrease in amortisation due to overstatement of amortisation	(170,980)
	29,710,268

Repairs and maintenance	**2013**
As previously stated	6,632,294
Decrease in repairs and maintenance due to asset incorrectly misallocated to expenditure	(19,951)
	6,612,343

General expenses	**2013**
As previously stated	67,197,931
Decrease in general expenses due to overstatement of audit fees	(239,487)
	66,958,444

Employee cost	**2013**
As previously stated	39,592,560
Increase in employee cost due to understatement of SDL	188,189
	39,780,749

Licences and permits	**2013**
As previously stated	(3,623,860)
Decrease in licence and permit fees due to understatement of VAT output	1,158,492
	(2,465,368)

41. Reclassification of comparative information

Certain comparative figures have been reclassified.

Travel & Subsistence of R 2,406,292 were incorrectly allocated to general expenditure instead of personnel costs.

Finance Management & MFMA Implementation System representing interns salaries of R 1,516,895 were incorrectly allocated to general expenditure instead of personnel costs.

Skills Development Levies of R 140,845 were incorrectly allocated to general expenditure instead of personnel costs.

Skills Development Levies of R 2,392 were incorrectly allocated to general expenditure instead of remuneration of councillors.

Re-imbursive Travel Allowance of R 1,218,541 were incorrectly allocated to personnel cost instead of remuneration of councillors.

EPWP Programs of R 2,095,642 representing wages were incorrectly allocated to general expenditure instead of personnel costs.

The effects of the reclassification are as follows:

Figures in Rand	2014	2013

41. Reclassification of comparative information (continued)

Statement of Financial Performance		
General expenditure	-	(2,406,292)
Personnel costs	-	2,406,292
General expenditure	-	(1,516,895)
Personnel costs	-	1,516,895
General expenditure	-	(140,845)
Personnel costs	-	140,845
General expenditure	-	(2,392)
Remuneration of councillors	-	2,392
Personnel costs	-	(1,218,541)
Remuneration of councillors	-	1,218,541
General expenditure	-	(2,095,642)
Personnel costs	-	2,095,642

42. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2014	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	16,287,278	-	-	-
Current portion of unspent conditional grants and receipts	5,931,766	-	-	-

At 30 June 2013	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	10,940,889	-	-	-
Current portion of unspent conditional grants and receipts	30,521,323	-	-	-
Finance lease liability	73,024	-	-	-

Interest rate sensitivity analysis

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Figures in Rand	2014	2013

42. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2014**	**2013**
Cash and cash equivalents	49,210,593	61,479,948
Trade and other receivables from exchange transactions	2,587,395	551,092
Trade and other receivables from non-exchange transactions	703,419	769,420
VAT receivable	4,522,360	101,286

43. Unauthorised expenditure

Opening balance	83,441,011	76,136,807
Unauthorised expenditure current year	-	60,408,124
Less amounts approved for write off	(83,441,011)	(53,103,920)
	-	**83,441,011**

44. Fruitless and wasteful expenditure

Opening balance	2,806,634	2,781,428
Fruitless and wasteful expenditure	98,387	25,206
	2,905,021	**2,806,634**

R 29 500 relates to payment to a supplier for goods and services not rendered.

R 59 688 relates to overdue accounts to suppliers.

R 9 199 relates to interest and penalties from the South African Revenue Services.

45. Irregular expenditure

Opening balance	22,402,266	22,323,839
Add: Irregular Expenditure - current year	-	3,555,524
Less: Amounts approved for write off	(22,402,266)	(3,477,097)
	-	**22,402,266**

Notes to the Financial Statements

Figures in Rand	2014	2013

46. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2014	2013
Opening balance	-	-
Current year subscription / fee	3,532,638	3,255,632
Amount paid - current year	(3,425,156)	(3,255,632)
Amount paid - previous years	-	-
	107,482	**-**

PAYE and UIF

	2014	2013
Opening balance	-	-
Current year payroll deductions	5,908,154	3,902,724
Amount paid - current year	(5,908,154)	(3,902,724)
Amount paid - previous years	-	-
	-	**-**

Pension and Medical Aid Deductions

	2014	2013
Opening balance	-	-
Current year subscription / fee	7,111,567	5,830,966
Amount paid - current year	(7,111,567)	(5,830,966)
Amount paid - previous years	-	-
	-	**-**

VAT

	2014	2013
VAT receivable	4,522,360	101,286

VAT output payables and VAT input receivables are shown in note 12.

All VAT returns have been submitted by the due date throughout the year.

Figures in Rand	2014	2013

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
No councillors arrear for the year	-	-	-

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
No councillors arrear for the year	-	-	-

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2014	Highest outstanding amount	Aging (in days)
No councillors arrear for the year	-	-

30 June 2013	Highest outstanding amount	Aging (in days)
No councillors arrear for the year	-	-

47. Deviation from supply chain management regulations

In terms of Paragraph 12(1)(d)(i) of the Municipal Supply Chain Management Regulations, it states that a supply chain management policy must follow a competitive bidding process for procurement above R 200, 000 and long term contracts.

In terms of Paragraph 36 of the Municipal Supply Chain Management Regulations, it states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the financial statements.

The following electrification projects where put before Council for contract extension greater than 20% of initial contract amount:

Engcobo Electrification for Qanguleni
Engcobo Electrification for Mjanyana – Quluqu
Engcobo Electrification for Quluqu
Engcobo Electrification for Bhekileni
Engcobo Electrification for Sitholeni Phase 1
Engcobo Electrification for Xuka – Maqanda
Engcobo Electrification for Ward 4

48. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

A1: 15% variance is due to variation of water consumption during the year.

Figures in Rand	2014	2013

48. Budget differences (continued)

A2: 13% variance is due to increase in driver's license applications.

A3: 30% variance is due to refunds from SARS on VAT that was deposited into investment accounts.

A4: 27% variance is due supplementary valuation during the current year and indigents approved during the year.

A5: 76% variance is due to commitments which were not allocated to the budget.

A6: 64% under budget is due to decrease in offenders.

A7: 17% under budget is due to reclassification of certain employee related cost which were budgeted under general expenses (Subsistence allowance, Casuals).

A8: 28% variance was due to the full infrastructure verification during the current year.

A9: 100% variance is due to unforeseen delays in payments.

A10: 90% variance is due to increase in collection rate.

A11: 44% variance is dueunforseen asset broken down.

A12: variance is due to electrification expenses which were budgeted under capital expenses.

A13: 100% variance is due to unforeseen disposal of assets which resulted in loss.

49. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment
Recoverable amounts of property, plant and equipment
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)
Present value of defined benefit obligation
Provision for doubtful debts
Impairment of assets
Provision for long-term service award

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets
Provisions

50. Gains/(losses) on sale of assets

Property, plant and equipment	(3,931,762)	775,095

51. Water distribution losses

The municipality incurred water distribution losses in the current year estimated at 32% (2013: 47%). This amounts to a loss of 72,435 kilolitres at a cost R 3, resulting in a total revenue loss for the current year of R 217,305 (2013: R 491,271).

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.